

Dongsung Finetec (033500)

Above

In line

Below

12M rating **BUY (Maintain)**
12M TP **W13,000** from W13,000
Up/downside **+15%**

Stock Data

KOSPI (May 15, pt)	2,010
Stock price (May 15, KRW)	11,350
Market cap (USD mn)	299
Shares outstanding (mn)	27
52-Week high/low (KRW)	12,450/7,480
6M avg. daily turnover (USD mn)	2.4
Free float / Foreign ownership (%)	59.4/7.5
Major shareholders (%)	
DongSung Holdings and 2 others	40.6
National Pension Service (NPS)	5.1

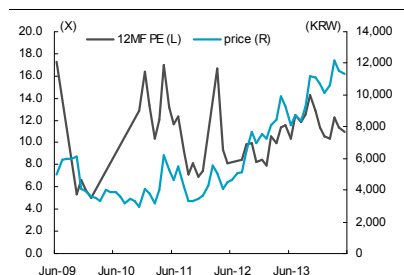
Valuation

	2013A	2014F	2015F
PE (x)	29.5	12.0	11.2
PB (x)	3.4	2.8	2.3
ROE (%)	12.4	26.5	22.5
EV/EBITDA (x)	14.6	10.7	8.3
EPS (KRW)	363	948	1,014
BPS (KRW)	3,130	4,028	4,991

Performance

	1M	6M	12M
Absolute (%)	0.0	1.8	24.6
Relative to KOSPI (%p)	(0.9)	1.6	22.6

12MF PE trend



Source: WISEfn consensus

Earnings improvement underway

What's new: Solid 1Q14 results

Dongsung Finetec posted solid 1Q14 results, with sales of W116.6bn (+28.4% YoY) and OP of W7.4bn (+129.8% YoY). Sales beat the consensus by 10.7%, while OP was in line with our estimate (W7.6bn) and the consensus (W7.0bn). We attribute the strong earnings to higher sales at the insulation business. Furthermore, the company posted EBT of W5.6bn and NP of W5.7bn backed by tax deductions until this year on accumulated losses.

Pros: Ship insulation sales jump 32% YoY

Ship insulation sales climbed to W85.5bn (+32% YoY) on a robust backlog, as new orders outpaced sales. In addition, 1Q14 sales exceeded other quarters due to the production schedule. As the company expands facilities, sales-based capacity should increase by 20-30%. France-based GTT, which controls the technology, will inspect the facilities to issue a production certificate from June, and full-fledged output should begin in 2015.

Cons: Gas cylinder losses, but division to be sold in 1H14

Losses continued at the gas cylinder division. However, management plans to sell the unit in 1H14. Once restructuring is complete, all of the remaining divisions should be profitable. Of note, OPM growth is likely from 4Q14 as some low-margin orders will be booked in 2Q14 and 3Q14.

Conclusions: Maintain 'BUY'

We maintain BUY and a TP of W13,000, at 13.5x 12MF PE. The company has secured W85bn in orders YTD, which is relatively low compared to the annual target of W390bn. However, share support is firm given strong mid- to long-term LNG carrier demand and the oligopoly structure of the market (dominated by Dongsung Finetec and Hankuk Carbon). Furthermore, Korean shipbuilders have resumed winning LNG carrier orders (Samsung Heavy recently secured two units), and we expect insulation orders for LNG carriers secured after 2H13 to be placed soon. As such, shares should pick up gradually as orders resume.

(W bn, %, %p)

	1Q14				Change		2014F	
	KIS est.	Actual	Diff.	Consensus	QoQ	YoY	KIS	Consensus
Sales	101.5	116.6	14.9	105.3	4.5	28.4	432.0	432.8
OP	7.6	7.4	(2.9)	7.0	44.4	129.8	29.7	31.5
OP margin	7.5	6.3	(1.2)	6.6	1.7	2.8	6.9	7.3
EBT	5.9	5.6	(5.0)	5.6	1,357.0	613.9	26.1	NA
NP	5.8	5.7	(1.5)	5.4	1,060.8	1,013.1	25.6	25.3

Chulhee Cho

822-3276-6189

chulhee.cho@truefriend.com

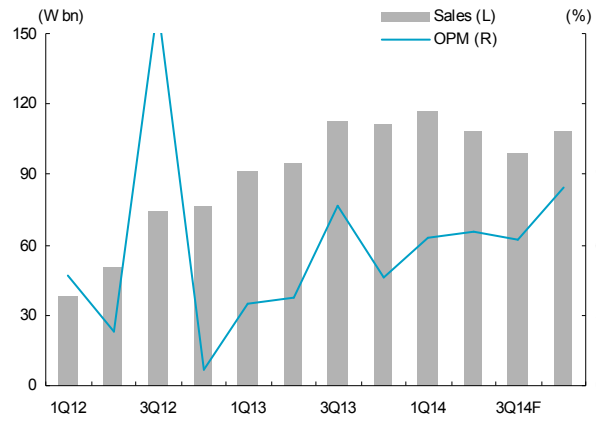
Table 1. 1Q14 earnings

(W bn, %)

	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14F	3Q14F	4Q14F	2012	2013	2014F	2015F
Sales	90.8	94.7	112.4	111.6	116.6	108.1	99.1	110.9	239.4	409.4	432.0	460.2
Insulation	67.0	64.2	83.3	80.6	88.7	80.5	69.5	83.5	115.3	295.1	322.1	353.8
Ships	64.8	61.9	81.8	77.9	85.5	78.0	67.9	80.7	110.7	286.4	312.1	343.3
Onshore transport	2.2	2.3	1.5	2.7	3.2	2.5	1.6	2.8	4.6	8.7	10.0	10.5
Non-insulation	23.8	30.5	29.1	31.0	27.9	27.6	29.7	27.4	124.1	114.4	109.9	106.4
PU systems	6.1	8.3	8.1	8.8	4.9	6.2	6.9	7.0	32.6	31.3	25.0	25.3
Panels	7.7	13.6	13.5	15.0	15.1	15.0	15.3	15.9	52.0	49.8	61.2	61.8
Fire fighting systems	1.2	1.6	1.3	1.9	1.4	1.7	1.3	1.9	7.0	6.0	6.3	6.4
Refrigerants	2.9	3.2	3.5	2.5	3.3	3.3	3.5	2.6	13.2	12.1	12.7	12.9
Gas cylinders	6.0	3.7	2.7	2.7	3.2	1.3	2.7	0.0	19.2	15.2	0.0	0.0
OP	3.2	3.5	8.7	5.1	7.4	7.0	6.2	9.1	15.5	20.5	29.7	37.7
OPM	3.5	3.7	7.7	4.6	6.3	6.5	6.2	8.2	6.5	5.0	6.9	8.2

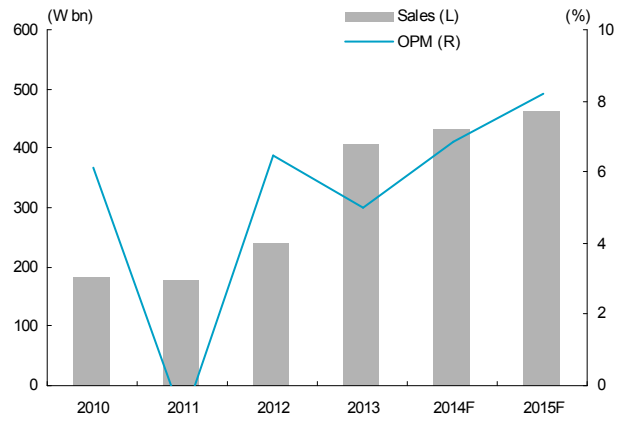
Source: Korea Investment & Securities

Figure1. Quarterly earnings



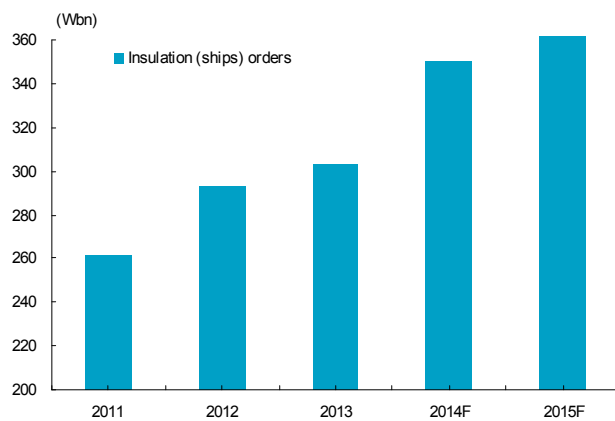
Source: Company data, Korea Investment & Securities

Figure2. Annual earnings



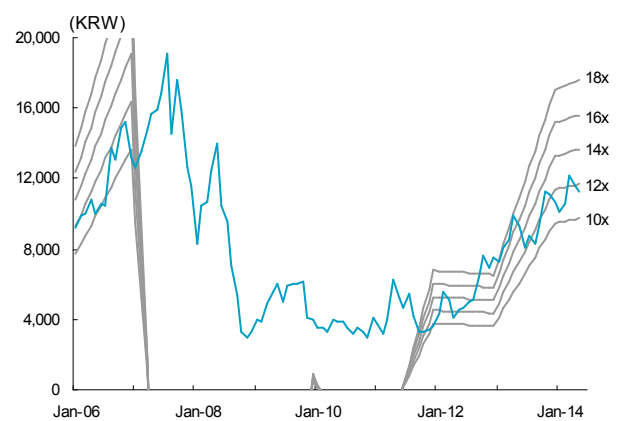
Source: Company data, Korea Investment & Securities

Figure3. New order trends

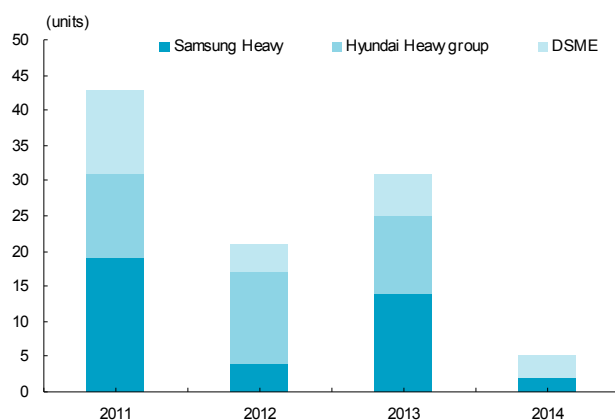


Source: Company data, Korea Investment & Securities

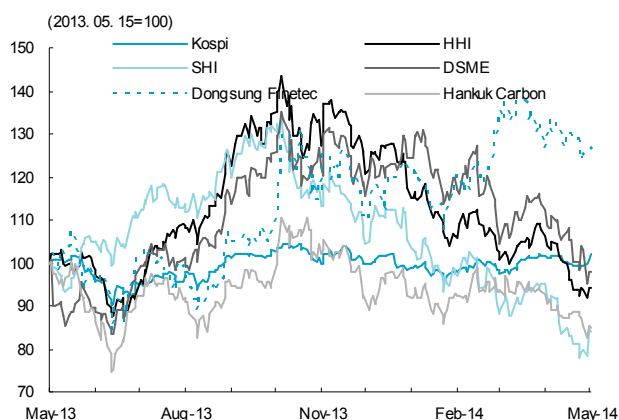
Figure4. 12MF PE band



Source: Company data, Korea Investment & Securities

Figure5. Korean shipyard's LNGC orders – Insulation orders expected for LNGC received after 2H13

Source: Company data, Korea Investment & Securities

Figure6. Share performances for shipyards and insulation makers

Source: Company data, Korea Investment & Securities

Company overview & Glossary

As a cryogenic insulation materials maker, Finetec dominates the domestic insulation materials market with Hankuk Carbon. Finetec's operations are largely divided between insulation (ships, onshore transport) and other (non-insulation) materials. As the other materials business generates steady sales with no significant changes, company-wide earnings hinge a lot on ship insulation business conditions. Of note, there was a gap in orders after the boom in LNG carrier tenders from Qatar during the mid-2000s. But since 2011, domestic shipbuilders have been enjoying strong order momentum for LNG carriers and accordingly, the insulation materials industry is approaching a second golden age.

- Cryogenic insulation materials: Used in low-temperature environments to prevent heat influx; Usually require materials to be waterproof or moisture resistant; Finetec's insulation materials are used in storage tanks installed in LNG carriers that transport gas at a temperature of -162°C
- Reinforced polyurethane foam (R-PUF): High-density foam reinforced with fiberglass used to protect storage tanks from impact caused by wind and waves
- Insulation panel: Actual insulation materials made from R-PUF used in an LNG carrier's cargo containment system
- Pipe insulation: Materials encasing pipes and used to prevent LNG vaporization; Widely used in FLNG-related facilities as well

Balance sheet

FY-ending Dec. (W bn)	2012A	2013A	2014F	2015F	2016F
Current assets	161	161	170	171	168
Cash & cash equivalent	4	4	4	5	5
Accounts & other receivables	62	78	82	78	69
Inventory	89	74	78	83	88
Non-current assets	136	138	148	151	154
Investment assets	5	3	3	3	4
Tangible assets	124	128	138	140	142
Intangible assets	2	2	2	2	2
Total assets	297	298	318	322	322
Current liabilities	214	204	199	177	147
Accounts & other payables	36	53	58	64	69
ST debt & bond	135	128	108	83	63
Current portion of LT debt	30	0	0	0	0
Non-current liabilities	8	10	10	11	11
Debentures	0	0	0	0	0
LT debt & financial liabilities	0	0	0	0	0
Total liabilities	223	214	209	188	158
Paid-in capital	14	14	14	14	14
Capital surplus	43	43	43	43	43
Capital adjustments	0	0	0	0	0
Retained earnings	18	28	51	77	105
Shareholders' Equity	74	84	109	135	163

Income statement

FY-ending Dec. (W bn)	2012A	2013A	2014F	2015F	2016F
Sales	239	409	432	460	490
COGS	205	362	374	392	418
Gross profit	34	48	58	68	73
SG&A expense	19	27	29	30	32
Operating profit	16	21	30	38	40
Financial income	0	0	0	0	0
Interest income	0	0	0	0	0
Financial expense	9	10	5	4	3
Interest expense	8	7	5	4	3
Other non-operating profit	3	(0)	1	1	1
Gains (Losses) in associates, subsidiaries and JV	0	0	0	0	0
Earnings before tax	10	10	26	35	39
Income taxes	(0)	0	1	8	8
Net profit	10	10	26	27	30
Other comprehensive profit	(1)	1	1	1	1
Total comprehensive profit	9	10	26	28	31
EBITDA	23	28	38	46	49

Cash flow

FY-ending Dec. (W bn)	2012A	2013A	2014F	2015F	2016F
C/F from operating	(45)	48	41	39	34
Net profit	10	10	26	27	30
Depreciation	8	8	8	9	9
Amortization	0	0	0	0	0
Net incr. in W/C	(66)	27	7	2	(6)
Others	3	3	0	1	1
C/F from investing	(5)	(11)	(19)	(12)	(12)
CAPEX	(4)	(10)	(20)	(11)	(11)
Decr. in fixed assets	0	1	2	0	0
Incr. in investment	(0)	(1)	(0)	(0)	(0)
Net incr. in intangible assets	(0)	(0)	(0)	(0)	(0)
Others	(1)	(1)	(1)	(1)	(1)
C/F from financing	52	(37)	(22)	(27)	(22)
Incr. in equity	0	0	0	0	0
Incr. in debts	52	(37)	(20)	(25)	(20)
Dividends	0	0	(2)	(2)	(2)
Others	0	0	0	0	0
C/F from others	(0)	(0)	0	0	0
Increase in cash	2	1	0	0	0

Note: Based on K-IFRS (non-consolidated)

Key financial data

FY-ending Dec.	2012A	2013A	2014F	2015F	2016F
per share data (KRW)					
EPS	376	363	948	1,014	1,113
BPS	2,747	3,130	4,028	4,991	6,054
DPS	0	70	70	70	70
Growth (%)					
Sales growth	34.8	71.0	5.5	6.5	6.5
OP growth	0.0	32.3	44.8	26.9	6.5
NP growth	0.0	(3.4)	161.2	6.9	9.8
EPS growth	0.0	(3.5)	161.2	6.9	9.8
EBITDA growth	265.3	21.2	34.5	22.3	5.3
Profitability (%)					
OP margin	6.5	5.0	6.9	8.2	8.2
NP margin	4.2	2.4	5.9	5.9	6.1
EBITDA margin	9.7	6.9	8.8	10.1	9.9
ROA	4.0	3.3	8.3	8.5	9.3
ROE	14.6	12.4	26.5	22.5	20.2
Dividend yield	0.0	0.7	0.6	0.6	0.6
Stability					
Net debt (W bn)	158	120	100	75	54
Debt/equity ratio (%)	222.8	151.1	99.0	61.3	38.3
Valuation (X)					
PE	19.9	29.5	12.0	11.2	10.2
PB	2.7	3.4	2.8	2.3	1.9
PS	0.8	0.7	0.7	0.7	0.6
EV/EBITDA	15.7	14.6	10.7	8.3	7.4

Changes to recommendation and price target

Company (Code)	Date	Recommendation	Price target
Dongsung Finetec (033500)	09-24-13	NA	-
	10-17-13	BUY	W13,000



■ **Guide to Korea Investment & Securities Co., Ltd. stock ratings based on absolute 12-month forward share price performance**

- BUY: Expected to give a return of +15% or more
- Hold: Expected to give a return between -15% and 15%
- Underweight: Expected to give a return of -15% or less
- Korea Investment & Securities does not offer target prices for stocks with Hold or Underweight ratings.

■ **Guide to Korea Investment & Securities Co., Ltd. sector ratings for the next 12 months**

- Overweight: Recommend increasing the sector's weighting in the portfolio compared to its respective weighting in the Kospi (Kosdaq) based on market capitalization.
- Neutral: Recommend maintaining the sector's weighting in the portfolio in line with its respective weighting in the Kospi (Kosdaq) based on market capitalization.
- Underweight: Recommend reducing the sector's weighting in the portfolio compared to its respective weighting in the Kospi (Kosdaq) based on market capitalization.

■ **Analyst Certification**

I/We, as the research analyst/analysts who prepared this report, do hereby certify that the views expressed in this research report accurately reflect my/our personal views about the subject securities and issuers discussed in this report. I/We do hereby also certify that no part of my/our compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this research report.

■ **Important Disclosures**

As of the end of the month immediately preceding the date of publication of the research report or the public appearance (or the end of the second most recent month if the publication date is less than 10 calendar days after the end of the most recent month), Korea Investment & Securities Co., Ltd., or its affiliates does not own 1% or more of any class of common equity securities of Dongsung Finetec.

There is no actual, material conflict of interest of the research analyst or Korea Investment & Securities Co., Ltd., or its affiliates known at the time of publication of the research report or at the time of the public appearance.

Korea Investment & Securities Co., Ltd., or its affiliates has not managed or co-managed a public offering of securities for Dongsung Finetec in the past 12 months;

Korea Investment & Securities Co., Ltd., or its affiliates has not received compensation for investment banking services from Dongsung Finetec in the past 12 months; Korea Investment & Securities Co., Ltd., or its affiliates does not expect to receive or intend to seek compensation for investment banking services from Dongsung Finetec in the next 3 months.

Korea Investment & Securities Co., Ltd., or its affiliates was not making a market in Dongsung Finetec's securities at the time that the research report was published.

Korea Investment & Securities Co., Ltd. does not own over 1% of Dongsung Finetec shares as of May 16, 2014.

Korea Investment & Securities Co., Ltd. has not provided this report to various third parties.

Neither the analyst/analysts who prepared this report nor their associates own any shares of the company/companies covered in this report as of May 16, 2014.

Prepared by: Chulhee Cho

This report was written by Korea Investment & Securities Co., Ltd. to help its clients invest in securities. This material is copyrighted and may not be copied, redistributed, forwarded or altered in any way without the consent of Korea Investment & Securities Co., Ltd. This report has been prepared by Korea Investment & Securities Co., Ltd. and is provided for information purposes only. Under no circumstances is it to be used or considered as an offer to sell, or a solicitation of any offer to buy. We make no representation as to its accuracy or completeness and it should not be relied upon as such. The company accepts no liability whatsoever for any direct or consequential loss arising from any use of this report or its contents. The final investment decision is based on the client's judgment, and this report cannot be used as evidence in any legal dispute related to investment decisions.